GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3690
ANSWERED ON:27.04.2007
LIQUIDITY CRISIS TO CONTAIN PRICE RISE
Murmu Shri Hemlal;Shakya Shri Raghuraj Singh

Will the Minister of FINANCE be pleased to state:

(a) whether call money rate has reached to record high due to withdrawal of money from the markets by RBI to contain the price rise;

(b) if so, the details thereof alongwith the reaction of the Government thereto;

(c) whether the scarcity of money created by RBI has been fulfilled by some other sources;

(d) if so, the details thereof; and

(e) the areas that had not been addressed by the Government as yet in checking the price rise?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): During 2006-07, call money rates had largely remained within the informal interest rate corridor set by RBI`s fixed repo/reverse repo rates. However, in view of the advance tax outflows, concomitant increase in the Centre`s surplus from Rs 36,476 crore as on March 9, 2007 to Rs. 77,006 crore as on March 23, 2007, the impact of the CRR hike, sustained credit demand, extended weekends on account of holidays and annual closing of banks led to some liquidity tightening from March 16, 2007, thereby the daily weighted call rates, between March 16-31, 2007 ranged between 9.42 per cent and 54.32 per cent. To cope with the emerging money market situation, RBI under Liquidity Adjustment Facility (LAF) injected liquidity averaging Rs. 31,124 crore daily during this period. On account of the reduction in the Centre`s surplus with RBI, net injection of liquidity by the RBI came down from Rs. 29,185 crore as on March 31, 2007 to Rs 1,455 crore as on April 5, 2007 and there was net absorption of liquidity during the period April 9-15, 2007. The call money rates also eased to an average of 6.67 per cent in the first fortnight of April 2007.

(c) & (d): The broad money supply (M3) had increased by 20.8 per cent as on March 31, 2007 on top of the growth of 17.0 per cent on the corresponding date of previous year.

(e): Containment of inflation remains high on the agenda of the Government. Anti-inflationary policies initiated by the Government among other things include: strict fiscal prudence, effective management of supply-demand through liberal import of essential commodities and strengthening of public distribution system for foodgrains.